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The increasing demands of the European Defense Program may eventually force the French Government to retrench in Indochina or even to withdraw completely from the area. Parliamentary opposition to the Indochina burden is spreading as the conviction grows that the long-term outlook for French interests in the area is hopeless. Nevertheless, continued US aid and French concern over the effect any loss of prestige would have on their position in North Africa will militate against any drastic policy change in the immediate future.

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International Communist strategy for the conquest of Asia calls for the capture of revolutionary movements by Stalinist Communist parties. These "liberation" movements are to be assisted by neighboring Communist states. In East Asia, the principal supporting role is played by Communist China. The most immediate threat is to Indochina and Burma, then to Thailand and Malaya, and finally to Indonesia and the Philippines.

THE SOVIET WORLD

The USSR rounded out its diplomatic attacks against the continuing Western efforts to develop a system of defensive alliances by protesting plans for the organization of a Middle East Command on the Soviet Union's southern approaches. The Kremlin warned certain Arab nations and Israel that participation in the Command, which would be linked to the North Atlantic bloc, would "inflict serious harm on relations existing between the USSR and these countries and also on the cause of upholding peace and security in the Near and Middle East."

The USSR also sent notes to the four sponsors of the Command, the United States, Great Britain, France and Turkey. A report that the top Soviet diplomats to the Arab countries would hold a meeting within the next few weeks is possibly an indication that the USSR is planning further moves to exploit existing tensions in the Middle East and discourage membership in the Command.

Possibly as a result of the small success which the Kremlin achieved with its protests over the last few months regarding Norwegian implementation of NATO, a Soviet diplomat reportedly suggested to the Swedish Foreign Office that the USSR might favor a Scandinavian "understanding," including Finland. Similar unconfirmed reports of the USSR's agreeable attitude on a Scandinavian alliance have emanated from Denmark and Finland. While it is unlikely that Moscow desires an independent alliance in such a strategic area, this maneuver might well be designed to create confusion and dissension among the Scandinavian countries.

As further support for the Soviet claim regarding aggressive intentions of the United States, the USSR in a note to the US pointed to that section of the Mutual Assistance Act which provided funds for utilizing Soviet and Satellite refugees in "sub-units of armed supporting organizations of NATO or for other purposes." In this instance, unable to cite a non-aggression pact as in the case of various protests to Britain and France, the USSR referred to the Roosevelt-Litvinov exchange of 1933 in order to establish that Washington was violating an agreement.

In Eastern Europe, long standing economic difficulties are being aggravated by increased Soviet demands. Although output in the key mining, chemical, heavy engineering, vehicle and power industries has increased over last year, current production goals are not being fulfilled in Poland, Hungary and Czechoslovakia.

Increased emphasis on heavy industry has intensified industrial weaknesses and caused a drop in consumer goods production. This has led to a marked decline in worker morale. Absenteeism, worker migration, corrupt wage and norm practices, declining interest in Stakhanovism, falsification of work book figures, waste of materials and inefficient

use of machines also tend to reduce production.

Other factors which have prevented fulfillment of current plans are stricter enforcement by the West of export controls, deterioration of obsolescent machinery, a shortage of available industrial manpower, especially skilled laborers and technicians, and the inferiority of raw materials and equipment.

Although an increase in food supplies would probably contribute most to raise production by improving worker morale, government spokesmen, who have admitted this basic difficulty, are unable to do more than offer promises of future improvement. The Satellite governments have introduced certain administrative changes, such as the recent decentralization of economic ministries in Czechoslovakia, to improve efficiency of operation. Efforts to procure through clandestine channels raw materials embargoed by the West also have met with some success.

Despite these endeavors, however, there is no evidence that the ambitious industrialization goals of the Satellites will be reached in the foreseeable future or that Soviet requirements for industrial and military goods will be fully satisfied.

THE PROBLEM OF WEST NEW GUINEA

The intransigence of Indonesia and the Netherlands in the dispute over West New Guinea is seriously threatening relations between the two countries. Negotiations are at an impasse as a result of the Dutch refusal to consider the Indonesian proposal for an early transfer of the area, now under interim Dutch administration, to Indonesia. Although both governments realize that New Guinea is an economic liability, the question has assumed such political proportions that neither country feels able to compromise.

Indonesia has consistently indicated that, although it would not resort to force neither would it abandon its claim, which is based largely on the fact that West New Guinea was formerly administered as part of the Netherlands East Indies. On the other hand, the Netherlands is proceeding to build up New Guinea with the expressed purpose of eventually granting it autonomy.

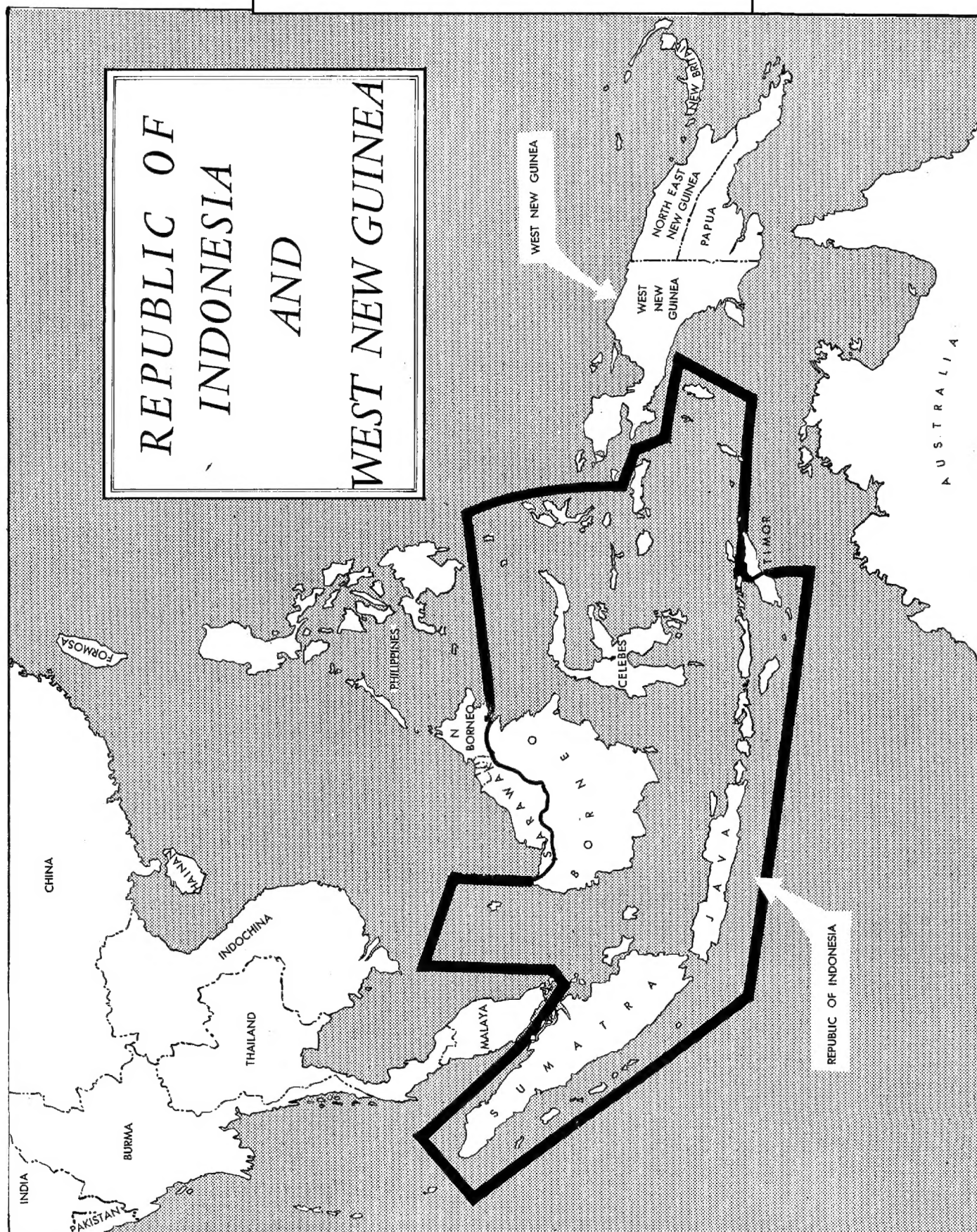
The Dutch government recently sharpened the issue with a proposed redefinition of the Netherlands Kingdom which specified West New Guinea as an integral part of it. Indonesia reacted by proposing an early discussion of the de jure transfer of sovereignty over West New Guinea, with a guarantee that Netherlands interests would be protected for 25 years.

The Netherlands implied that such a discussion would be fruitless. The Dutch Cabinet fell last January as a result of domestic controversy over policy on New Guinea and its successor has consistently suggested a postponement of action on Dutch-Indonesian problems until after the June 1952 parliamentary elections.

There is danger in Indonesia that leftist political pressure will force the government to take definitive action. Communists and leftists are agitating for retaliatory unilateral abrogation of the Netherlands-Indonesian Union and of the other agreements signed in 1949. The Indonesian Cabinet, although it has indicated that it may be forced into such action, probably prefers a less drastic procedure. An abrupt abrogation of the agreements would be disruptive to Netherlands investments in Indonesia, and would add to economic dislocation and unrest in Java and Sumatra.

Australia which controls East New Guinea strongly supports the Dutch on the grounds that West New Guinea is strategically important to Pacific defense and must therefore be administered by a Western nation. Australia has threatened to seize the area should the Dutch decide to relinquish control to Indonesia.

Both the Netherlands and Indonesia have sought American support for their respective positions. The US Embassy in The Hague believes that United States support of Indonesia would have most unfortunate repercussions on the Netherlands rearmament program and would also revive Dutch resentment at the role played by the United States in Indonesia's achievement of independence. On the other hand, American support of the Dutch would force Indonesia more firmly into a "neutralist" position as regards East-West relations.



FRANCE REASSESSES ITS STAKE IN INDOCHINA

Within recent months the French Assembly has become increasingly critical of the government's policy in Indochina. Responsible leaders are now acutely aware that France cannot finance an adequate defense in Europe and still continue the present scale of operations in Southeast Asia. The general public has long been indifferent to this issue, and only the leftist parties in Parliament have heretofore criticized the current policy. Now, however, the precarious financial position is developing rightist opposition, and there is a growing demand for complete withdrawal from Indochina. The Government, concerned for the effect on North Africa of such a withdrawal and hopeful for more US aid to France, will nevertheless attempt to pursue its current Indochina policy without drastic change.

The economic situation in Indochina is far from favorable. Production is still considerably below prewar figures, the country is handicapped by a heavy foreign trade deficit, and the government is increasingly resorting to deficit financing. French civil and military costs in Indochina are constantly expanding; this year they are approaching a billion dollars and a substantial increase in 1952 seems unavoidable.

Military needs in Europe are forcing the French to weigh the full burden of the war in Indochina. French military strength is being seriously sapped in Vietnam, not only because of the drain in men and materiel, but also because adequate cadres cannot be spared to train the conscripts necessary to defend France.

Premier Plevin recently told the National Assembly that France cannot give up the Indochina effort. Nevertheless, he stresses in private that Indochina is the basic cause of French financial difficulties. Plevin has also conceded privately that the demand to pull out of Indochina is obtaining more and more parliamentary adherents.

The Communists have long opposed the Indochina struggle. Although the Socialist Party adopted a pre-election resolution in support of the Indochina war, many French Socialists still favor a withdrawal. The recent Radical-Socialist Congress applauded a strong plea for France's withdrawal. This party speaks for the rural middle class and for small business, which have traditionally been nationalistic. The Radical-Socialists' ideology favors self-determination of subject peoples, however, and a realistic assessment of the French economic situation may encourage them to favor withdrawal.

Even General de Lattre now seems less sure of France's position in Indochina. He exemplifies the French military tradition identified most closely with maintaining French prestige at all costs. Should he carry out previous threats to resign, the effect on French opinion might well be decisive.

There is a widespread fear that the French Union would crumble if France gave up Indochina now, particularly when the French position in North Africa is under fire. French leaders argue that their country is fending off Communism in a vital area, and many of them are still imbued with the idea of a "mission" toward what they consider a backward area and culture. These reasons bolster the government's intention to continue the struggle. The present prospect of additional US aid for European defense, however, makes US assistance the decisive factor.

RECENT DEVELOPMENTS REGARDING THE TRIESTE ISSUE

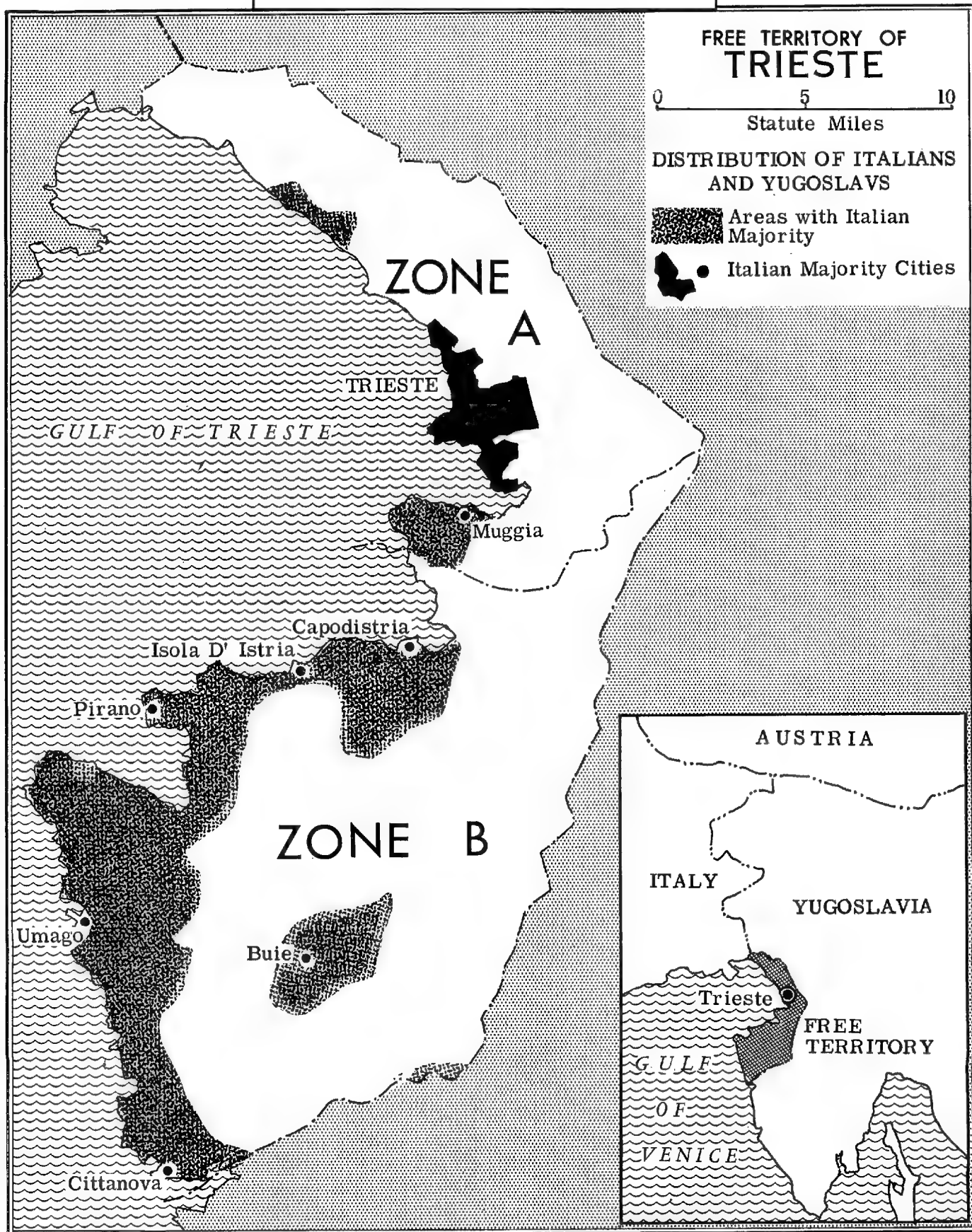
The question of the disposition of the Free Territory of Trieste remains a cause of sharp friction, not only between Italy and Yugoslavia, but also between the Western powers and the USSR. The Western proposal for revision of the 1947 Italian peace treaty, of which an important part is devoted to Trieste, is opposed by both Yugoslavia and the Soviet Union: the former will not consider revision until the Trieste question is settled, and the latter wishes to keep the question alive as a source of international dispute.

During the past two years the USSR has called for implementation of the Italian peace treaty clauses providing for the establishment of the entire Free Territory as an international area under the administration of a governor. In a series of notes, the latest dated 17 November, it has accused the Western powers of violating the peace treaty by failing to appoint a governor, by suppressing human rights in Trieste, and by building military bases in the area. The Western powers, who in March 1948 issued a declaration advocating the return of the entire territory to Italy, have often reiterated this stand at Italian insistence, but have meanwhile urged that Italy and Yugoslavia seek a compromise through direct negotiations.

In recent months both countries have indicated willingness to negotiate, but each, fearful that it might weaken its bargaining position, has left the initiative to the other. The Italian Government, under strong pressure from nationalist groups to be firm in demanding the return of the entire territory, insists that any negotiations must take the March 1948 declaration as a starting point. It has, however, admitted privately that it is ready to make minor concessions based on ethnic considerations. The Yugoslavs, strongly opposed to the West's declaration, have indicated they intend to retain the major part of Zone B of the territory, which their military government has been administering, and will insist upon certain concessions involving the Slovene hinterland in Zone A.

Western aid to Tito and the increasing importance of Yugoslavia to the Western defense system had aroused Italian fears that the Western powers might favor Yugoslav claims to the entire territory over those of the Italians, and Premier de Gasperi, during his visit to Washington, again reminded the United States of the Big Three's pledge. He wanted Washington to take a more active role in seeking a solution in accord with Italian aspirations.

At about the same time Italy, under Western prodding, called on Yugoslavia to negotiate all issues outstanding between the two countries. Tito had previously declared there was no issue between the two that could not be solved by negotiations. To facilitate an Italo-Yugoslav rapprochement by keeping the situation in Trieste quiet, the Allied Military Government of the Free Territory announced in October that the local elections scheduled for this fall in Zone A would be postponed.



As a result of pressure exerted on the Italian and Yugoslav Governments during September and October, both have expressed a willingness to initiate talks on Trieste with each other's delegates and with the Western Foreign Ministers during the current UN General Assembly meeting in Paris. Each country has indicated some doubt, however, that the other is seriously interested in a solution.

Under the terms of the settlement reportedly envisaged by the Yugoslavs, the Free Territory of Trieste would be divided approximately along the present boundary between Zone A and Zone B. Italy would receive Zone A, including Trieste, but would give Yugoslavia trading privileges in the city itself in return for Yugoslav concessions in Zone B. What these latter concessions would be is not known; Italy has hitherto insisted upon the return of certain predominantly-Italian coastal cities in that zone.

OUTLOOK FOR ISRAEL'S ECONOMY IS GLOOMY

Israel's economic problems, which have always been serious, have become more acute in recent weeks, dominating all other issues. In spite of strenuous government efforts to control the situation, a dangerous food crisis has developed, along with a shortage of many essential goods and a growing black market. While timely United States financial assistance, aided by the usual large contributions from private American sources, may alleviate the current difficulties, Israel's economic outlook will be dark for a long time to come.

Israel's economic plight is essentially a long-term, rather than a short-term problem. No bigger than Massachusetts and possessing very limited resources, Israel is unable to support its population of some one and a half million people, almost double the number of inhabitants of just three years ago. Immigration is a political issue and therefore difficult to restrict.

Inadequate housing, a limited food supply, and insufficient industrial resources are closely allied to the population problem and explain why Israel has an unbalanced economy, where exports total only about 20 percent of the country's imports. Defense requirements, rising from the lack of final peace agreements between Israel and its Arab neighbors, present an added drain on the country's economy.

The moderate socialist government of Prime Minister Ben-Gurion has maintained rigid economic controls since the nation was established in 1948. A strict austerity program has been imposed; food supplies, clothing and other essential goods are rationed. The government has sought to increase its foreign exchange by encouraging contributions to the state and investments in the country by foreign governments and individuals, particularly American. Trade pacts with a large number of countries, including several Soviet Satellite nations, have been concluded. Remarkable progress has been achieved within Israel in increasing arable land by irrigation, in reorganization of the important citrus industry, in expansion of the manufacture of pharmaceuticals, and in the development of the diamond industry. The strict government controls have resulted in a steady, if gradual, increase of exports and a reduction of overbalancing imports.

In spite of Israel's noteworthy achievements, serious cracks have appeared in the Israeli economy during the past year. Rising costs of imported raw materials and of new machinery have increased the difficulty of competing in world markets. Last winter's drought cut down the already limited food supply and the shortage of steel has slowed irrigation development. Inflation, government inefficiency, and a decrease in goods available to the expanding population have resulted in a breakdown of the economic controls and an expansion of the black market.

While the last two government crises, which brought on last summer's general elections, were theoretically caused by religious differences, economic problems were the main issue. Though Ben-Gurion's party maintained its political control, the conservative General Zionists profited by substantial popular dissatisfaction with the government's economic policies and became the second largest party in the Knesset (Parliament).

The General Zionists maintained that the economic difficulties could be checked by a combination of less Socialism and more government efficiency. The labor party of Ben-Gurion turned down the General Zionist demands and formed a coalition with minor Israeli parties, but economic issues continue to threaten the government's stability more than the foreign policy or religious issues.

SPECIAL ARTICLE

WORLD COMMUNISM: CHINESE COMMUNIST AID TO SOUTHEAST ASIAN
"LIBERATION" MOVEMENTS

International Communist strategy for the conquest of Asia calls for the capture and perversion of revolutionary movements by Stalinist Communist parties subservient to the Soviet Union. Communist-led "liberation" movements, relying primarily upon their own armed forces operating from a territorial base within the country, are to be assisted as practicable by neighboring "liberation" movements which have achieved national power. The principal supporting role in East Asia devolves upon Communist China.

In Indochina, the Peiping regime has contributed substantially to the capabilities of the Viet Minh. The reorganization of the Viet Minh from a guerrilla force to an army of seven divisions was facilitated by Chinese advisers and instructors. At least 30,000 and possibly as many as 75,000 Viet Minh troops have received training and equipment in China. While supplies from China have been far below the level necessary to match the French build-up, the Chinese Communists are capable of considerably augmenting the weapons and other material now possessed by the Viet Minh. This capability has recently been enhanced by completion of the rail line from Nanning to the Indochina border.

All reports locating Chinese Communist combat units in Indochina remain unsubstantiated; no Chinese troops have been identified, dead or alive, with the Viet Minh. Neither is there reliable evidence of the reported formation of Sino-Viet "volunteer" units. The Chinese Communist capability of launching a successful invasion, however, has long been recognized. Throughout 1951, there have been more than 150,000 Chinese Communist troops within a few hundred miles of the border.

This threat to Indochina will probably continue indefinitely, with a lack of reliable indications of the timing of Chinese intervention. Nevertheless, the French have recently felt themselves sufficiently well informed to estimate that an invasion is unlikely for at least the next several months.

In Burma, Peiping is actively assisting the insurgent Burmese Communists, encouraging above-ground pro-Communist organizations, attempting to gain control of Chinese residents of Burma, and in addition is maintaining at least 30,000 troops along the China-Burma border.

The Burma Communist Party is oriented toward Peiping, and its forces have been steadily moving northward into north-central Burma and toward the China frontier, presumably to improve their capabilities by receiving Chinese aid and guidance. There is evidence that some assistance has already been provided--in the form of advisers and technicians, training and possibly supplies--and that the scope of this aid will increase.

In addition, the Chinese Communists have made forays into Burmese territory, have infiltrated agents into Burma, have developed a Burmese rebel force now marking time in China, have been subsidizing pro-Communist Burmese politicians, and have extended Communist influence among the 250,000 Chinese in Burma. Further, there is a continuing possibility that the moderate leadership of the Burmese Government will be displaced by extreme leftists who would seek closer relations with Communist China. The Communists have the capability to resort to military force should this combination of circumstances fail to bring Burma under Communist domination.

In Thailand, the Peiping regime controls the local Communist movement, which is predominantly Chinese, and is extending its influence over the three million Thailand residents of Chinese ethnic origin who control a large segment of the Thai economy. There is no "liberation" movement in Thailand, however, which could acquire a territorial base and qualify for Chinese Communist support, and the absence of a common border would greatly handicap Chinese efforts to extend such support.

While Chinese Communist propaganda charges against Thailand in the past year could conceivably presage a Chinese invasion, there is no evidence that Peiping plans such an operation in the near future. For the time being, Peiping appears content to consolidate its control over the Communist movement in Thailand and the Thailand Chinese, with a view to employing both at some later date in connection with either a coup or an invasion.

In Malaya, as in Thailand, the Communist movement is predominantly Chinese. The approximately 4,000 Communist-led guerrillas of the so-called Malayan Races Liberation Army, based in the Malayan jungle, constitute a "liberation" movement which qualifies for Chinese Communist assistance. There does not appear, however, to have been any appreciable movement of Communist personnel and materiel into Malaya. Peiping's principal effort in Malaya to date has been toward converting and organizing the 2.5 million resident Chinese, nearly half the total population. The activities of both the terrorists and the resident Chinese can be coordinated effectively with Chinese Communist military operations at a later stage in East Asia's "liberation."

In Indonesia, Peiping is seeking to encourage Indonesian neutralist tendencies in world politics, to organize Chinese residents of Indonesia, and to strengthen international Communism's contacts with the relatively ineffectual Indonesian Communist movement.

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[redacted] Peiping is supporting with both advice and money Indonesian and Chinese Communist activity, processing Communist agents into Indonesia, extending its influence over the Chinese community, disseminating propaganda, arranging visits to China for influential Indonesians, and recruiting Indonesian students for study in China. However, Indonesia's attitude has become one of increased vigilance, and the country's geographical insularity limits outside support of local dissident groups. Indonesia is not now seriously vulnerable to Chinese Communist pressure, and will not be unless Malaya falls under Communist domination.

In the Philippines, the native Huk movement, although its fortunes have declined during 1951, is still an orthodox "liberation" movement eligible for Chinese aid. There is fragmentary evidence that Chinese Communist agents have been smuggled into the Philippines for service with the Huks, that a small amount of material aid has been provided by Peiping, and that Chinese Communist representatives attached to the Huks at the top level have provided guidance in ideology and tactics. Geographical factors and the American commitment to the defense of the Philippines, however, leave the Republic relatively secure against Chinese Communist pressure.